MEMBER INFORMATION

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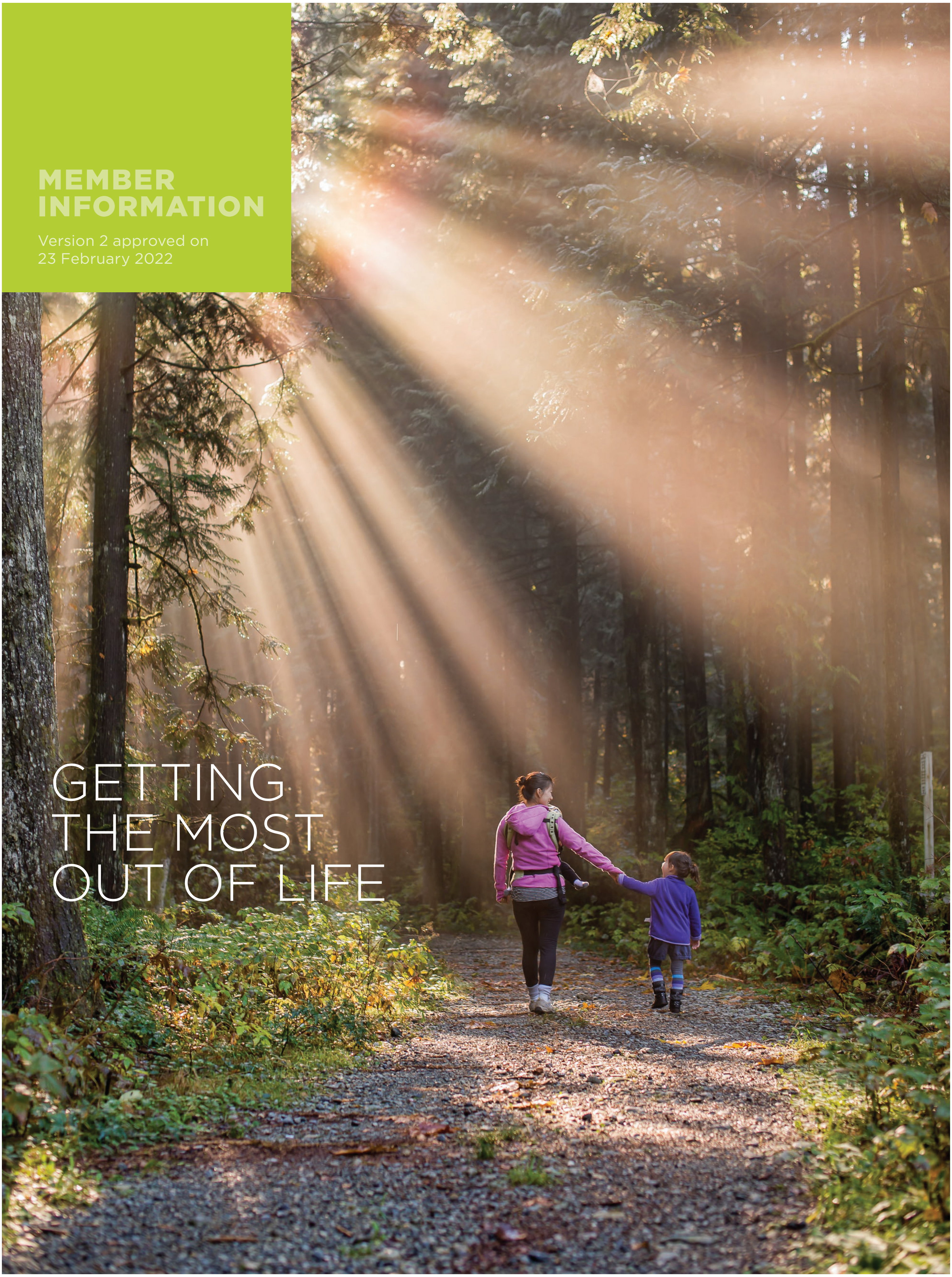

GETTING THE MOST OUT OF LIFE

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Financial Services Council NZ

ABOUT THE FSC.

As the voice of the sector, the FSC is a non-profit member organisation with a vision to grow the financial confidence and wellbeing of New Zealanders. FSC members commit to delivering strong consumer outcomes from a professional and sustainable financial services sector. The FSC is a non-profit member organisation and the voice of the financial services sector in New Zealand. Our 112 members* manage funds of more than $95bn and pay out claims of $2.8bn per year (life and health insurance).

Members include the major insurers in life, health, disability and income insurance, fund managers, KiwiSaver, and workplace savings schemes (including restricted schemes), professional service providers, and technology providers to the financial services sector.

The FSC's guiding vision is to grow the financial confidence and wellbeing of New Zealanders and we strongly support initiatives that align with our strategic intent and deliver:

- strong and sustainable customer outcomes
- sustainability of the financial services sector
- increasing professionalism and trust of the industry.

*As at March 2023

The Financial Service Council of New Zealand's reports and publications are available on our website or by contacting fsc@fsc.org.nz

WHAT IS LIFE INSURANCE

Life insurance is often used as a generic term to refer to a suite of insurance products to cover you and your family if you die or have a significant health event.

Most people associate the term Life insurance with a policy which pays money when someone dies. However, in its broadest meaning life insurance also includes a suite of insurance solutions that provide protection for events which can occur while you are alive.

These living insurances can financially support you if you suffer a specified life-threatening health condition or are unable to work due to sickness or injury. The most common living insurances are income protection and critical illness policies.

The New Zealand life insurance industry paid over $1.053b in claims in 2022.

TYPES OF LIFE INSURANCE POLICIES

The New Zealand financial services market provides the following types of life and living insurance policies. Individual insurance companies will package these insurances into their own product sets and often give the products their own names.

LIFE INSURANCE

Term life insurance

(also called Life insurance or death cover)

These policies pay the sum insured if the insured person dies or is diagnosed as terminally ill with life expectancy less than the period set out in the policy (commonly 12 months).

Many policies include additional benefits, such as a funeral benefit. This benefit pays a part of the sum insured as soon as the insurer is notified of the death. This partial payment can help meet immediate financial requirements associated with a death.

INSURANCE SOLUTIONS WHILE YOU ARE ALIVE

Insurance companies may provide a wide range of insurance options in addition to life insurance cover. Below we list the most common insurances solutions that provide protection for events which may can occur while you are alive.

Critical illness (trauma) cover

(also called trauma insurance, crisis cover, major illness, living assurance or critical condition or critical illness cover)

These polices pay the sum insured if the insured person suffers a specially defined serious medical conditions listed in the insurers policy document (e.g., cancer, stroke, heart attack).

It doesn't matter whether you can work or not and the sum insured can be used for anything the policy owner wants. It is not linked directly to medical costs or treatment.

Total and Permanent Disability (TPD) cover

(also called TPD or disability cover)

These polices pay the sum insured, usually as a lump sum, if you can't work because you are sick or injured, and it is unlikely that you will ever work again. Some policies will pay the lump sum if you are unlikely to work again in your usual or a similar occupation, and other policies will only pay you if you are unlikely to work again in any occupation.

Disability income insurance

(also called income protection, income replacement, income cover or total temporary disablement)

Pays a regular income benefit to replace your usual income if you can't work because you are sick or injured. Most policies pay a maximum of 75% of what your income was prior to you stopping work. Depending upon the policy wording, benefit payments may be taxable, or non-taxable.

You can choose a 'waiting period' before the insurance is paid (e.g., 4, 8, 13 or 26 weeks) and a payment period (e.g., 2 years, or until age 65) that will affect the premium you pay.

WHO SHOULD HAVE A PERSONAL RISK PROTECTION SOLUTION

Personal risk protection solutions are available to help you manage the financial risks associated with death, becoming disabled, or suffering a serious illness.

If your family or anyone else relies on you financially, you may need to consider life insurance. If you are earning an income, then income protection insurance can provide peace of mind in the event you had to stop working due to a health issue.

Life Insurance

If you have debt or financial dependants, you should probably consider life insurance. The best question to ask yourself is 'if something was to happen to me today, would those I leave behind be able to cope financially?'

Not everyone needs life insurance. If you don't have debt or financial dependants or you have accumulated enough wealth and assets to look after yourself or loved ones in the event of death or a serious illness or injury, you may not need it.

This does mean you can't have it though, want and need are quite different.

Critical Illness (trauma) cover

Like life insurance, if you have debt or a family that depends on your income, you may want to consider critical illness cover.

Additionally, if you are worried that your savings would not be sufficient to meet costs associated with medical treatment, lifestyle adjustments or life changing implications of a serious illness or injury, you could consider critical illness cover.

Think of it as your personal Givealittle fund.

Total and Permanent Disability (TPD) cover

If you are worried about your financial position if you couldn't work ever again, TPD cover is worth considering. The lump sum payment can help you make changes to your lifestyle, such as adapting your house to your new circumstances.

When combined with income protection cover, TPD can provide a lump sum payment that can help maximise the amount of insurance you can have in the event of never being able to work again.

income protection insurance

If you are earning an income that you or others rely on to pay day-to-day expenses and maintain a lifestyle, you should carefully consider income protection insurance.

Your income funds everything you do, which could be fully or partially lost if you became too sick or injured to work. This could be for a short or long period.

TIPS FOR BUYING LIFE INSURANCE

The following are tips and hints when buying insurance:

Answer questions completely and honestly

When you apply for personal risk insurance the insurer will ask you questions about your health, pastimes, lifestyle, occupation, and family history so that they can assess the risk you carry of making a claim in future. If your risk is higher than average, you may be charged an additional premium, or have some situations excluded from your policy (these are called “exclusions”).

You must answer the insurers questions completely and honestly, as they are part of the contract of insurance between you and the insurer. If you don’t, the insurer could decline a claim on the grounds of ‘non-disclosure’ and you may not get premiums you have paid previously given back to you.

Policy document / Policy wording and policy schedule

The policy document which contains the policy wording, along with the policy schedule, is the formal contract of insurance between you and the insurer.

The policy document and schedule contain the terms and conditions applying to your policy. It includes what you are and aren’t covered for, in what circumstances a claim will and won’t be paid and sets out the obligations of the insurer, the policy owner, life insured and payer.

You should read your policy documents to ensure you understand your policy and whether it meets your needs. Your financial adviser can help you understand anything you are unsure about.

Do your research, shop around and consider your options

Buying insurance can seem overwhelming at first. It is important you take your time, do your research, and talk to those you trust to understand your options, what is available and any experiences they may have had with insurance.

The internet is a great source of information and there are many options. The first thing you need to do though is understand your risk.

Financial advisers can help you make sense of the information you have collected and help you find the right solution for your needs. You may only need income protection and not life insurance, you may not need anything, or you may need the whole suite of insurance solutions.

Once you have identified your needs, and have a clear understanding of the type of solutions which are best for you, you need to consider which insurance provider is the best match for you. Aside from just products and pricing, you may also want to consider an insurers financial strength rating, the various services they provide and their overall brand and reputation.

A financial adviser can help you with this.

Financial strength ratings

All licensed insurance companies must provide their financial strength rating before you apply for insurance. If they don’t have one, they must tell you why. A financial strength rating reflects an insurer’s ability to meet its obligations to pay claims, specifically to pay future claims.

An insurer’s financial strength rating will also be on their website and any application forms they have. This will give you an idea of the present financial strength of the insurer. If the financial strength rating is downgraded, the insurer must tell existing policyholders.

MANAGING YOUR LIFE INSURANCE

Review your policy each year

Over time, your insurance needs will change with your circumstances. Your income, domestic relationship, dependents, health, assets and other things that impact your current and future financial position. Your insurance policies were purchased at a point in time, and it is important to review them to ensure they continue to meet your needs.

Every year your insurance company will send you an annual renewal notice. This will include details of your policy, the amount of cover you have and what the premium will be for the next year.

This is a great time to review your needs to make sure you have the right amount and right type of cover for your needs.

You should decide whether you need to increase your cover, reduce your cover, change the type of cover you have or cancel your policy if you no longer need it. It is important you get value for money and that you can afford your cover. If you have any concerns about this it is best to speak with your financial adviser, or insurance company as they will be able to assist you with other options.

Engage with your policy

It is important you understand what your policy covers you for, what it doesn't and why you have it. Your policy document is the contract you have with your insurer. This contains a full description of your cover including the circumstances in which a claim will and won't be paid. Your policy document will also include a policy schedule which contains your personal cover details including any 'special conditions' such as cover exclusions or additional premiums charged.

Your policy may contain benefits or options which allow you to add more cover in the future without needing to provide medical information. You should be aware when these options are available.

If you have a life insurance policy – read your policy document and policy schedule.

Check your policy for premium loadings or exclusions

When you take out a life insurance policy, your health and other personal information will be assessed as part of the 'underwriting process'. This may result in 'special terms' being applied to your policy. These may include additional premium or exclude cover for for certain medical conditions, occupations, or cover.

These 'special terms' may be permanent or for a set time. If your circumstances change over time (e.g., you have stopped smoking since you took your policy out), you may be able to ask your insurer to review or remove these 'special conditions'.

Review who owns your policy

You can own your own policy by yourself, own it with others such as your spouse or business partner or have other people own it. The person or people who own your policy are called policy owners.

Policyowners control the policy and are the only ones who can make changes to it. If you are not a policyowner of your policy, you don't have a say about what can be done with it. The policy owner also controls who will receive the proceeds of the policy. If you are the sole owner of your policy and you die or you become unable to make major decisions, the proceeds of your policy can be tied up in legal processes for a long time.

It is important you speak with your lawyer, insurance professional or estate planner to make sure you have the appropriate policy ownership for your circumstances. Your financial adviser may also be able to help.

Don’t focus only on premium

Life insurance premiums are an important consideration when thinking about life insurance or owning a policy. You need to be comfortable that you can afford your insurances. It is also important you consider the right amount of cover and type of policy for your needs.

Most life insurance premiums increase every year based on the age of the person insured. If your policy has a yearly renewable term, its price can increase each year. Not only do prices adjust with costs and claims experience, you may want your cover amount to adjust with inflation, and, as you get older, the risk you pose to insurers increases. Remember why you purchased insurance initially – if the need remains, you should continue to own it.

If your policy becomes unaffordable, your insurer or financial adviser may help you adjust your cover to reduce the premium. Remember that once you cancel your policy, if you decide to take a new policy in future, you will need underwriting again. If your health has changed, an insurer may exclude more health conditions, or increase your premium. If you maintain your existing policy, though, your insurer cannot change your terms to your detriment.

If you are finding it hard to pay your premiums or have other needs for your money, consider discussing this with your financial adviser before cancelling a policy. There are many options available to help manage the ongoing cost of life insurance policies, most commonly by reducing your cover or extending wait periods.

Changing insurers

You should always be comfortable that you have the right insurer for your needs. Sometimes you may find another insurer can meet your needs better than your current one. You should be aware of the following risks when considering changing insurer,

- A new insurer will have different policy wording to your current policy. This wording may include fewer options, more cover exclusions or pay benefits in a different way or timeframe than your current policy.
- Your health may have deteriorated since you first took out your current policy. This could mean you have to pay a higher premium for the same cover you already have or may find your new cover has exclusions which your current policy doesn’t. Remember if your health deteriorates your current insurer is still bound by the terms of your current policy when you took it out.
- If for any reason you forget to disclose all health information requested to the new insurer, you run the risk of the new insurer declining a claim.
- If a financial adviser recommends you change insurers, ask what commission they will receive for the new policy and seek assurance that the new policy meets your needs at least as well in terms of price and features.
- There may be options under your present policy, or your present insurer may be willing to change it to meet your changing needs.

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